Department of Telecommunications and Energy
Second Set of Information Requests

THE BERKSHIRE GAS COMPANY
D.T.E. 04-52

Witness: **John J. Kruszyna**
Date Filed: **July 20, 2004**

Question
DTE 2-1: For each of the years 2001, 2002, and 2003 please provide the increase in tax depreciation deductions taken resulting from the bonus depreciation provisions of Section 168 (k) of the Internal Revenue Code.

Response: For each of the years 2001, 2002, and 2003, the net increase in tax depreciation deductions taken resulting from the bonus depreciation provisions of Section 168 (k) of the Internal Revenue Code are as follows:

2001	$ 413,086
2002	$1,076,516
2003	The 2003 Federal Tax Return has not been filed as of this date. The expected filing date is September 15, 2004.

Attached schedule DTE 2-1 shows the calculation of the value of the temporary benefit inured from the tax change allowing bonus depreciation. The schedule charts the calculation of depreciation on the eligible assets acquired by the Company in 2001 and 2002. The net short-term available benefit by reason of the tax law change would be the difference between the previously allowed MACRS depreciation previously applied for tax (and not rate) purposes and the newly enacted bonus depreciation. Since the bonus depreciation benefit allowed for an additional 30% deduction in year one, the available depreciation benefit is reduced in the years that follow. Schedule DTE 2-1 demonstrates the net depreciation benefit/ (cost) each year, the cumulative excess tax depreciation, the total cumulative deferred tax, and the temporary, short-term economic benefit calculated using the actual average short-term borrowing rate. As described below, the Company does not believe that using the weighted cost of capital is an appropriate methodology for calculating the value of the short-term benefit associated with bonus depreciation.

Berkshire believes it is appropriate to calculate the value of any benefit inured using the average short-term borrowing rate. The temporary cash flow benefit generated by the tax law changes were used to reduce short-term borrowings, therefore the net cash benefit to the Company realized from the application of bonus depreciation was generated at the short-term borrowing rate. The use of the weighted cost of capital rate is not appropriate in calculating benefits to be refunded through rates. Importantly, the cost of the additional plant that generated the benefit, the associated book depreciation and any additional property taxes incurred in connection with such new plant are all absorbed by the Company pursuant to the terms of the PCM Plan. The short-term rate better captures the ebb and flow of this temporary benefit and is the more appropriate rate to use in calculating any benefit.

Question DTE 2-1 Cont'd.:

As stated in the Company's response to DTE 1-8, in order to qualify for additional first year tax depreciation deductions, eligible plant must have been placed in service between the period September 11, 2001 and September 10, 2004. Since plant is a rate base item and the Company's distribution rates only reflect rate base in service as of December 31, 2000 (the end of the test year for D.T.E. 01-56), the Company submits that this change in depreciation schedules should not be reflected in the Company's distribution rates nor considered an exogenous cost. Further, the Company notes that, historically, "book" depreciation has been used as the cost component in establishing rates, and was used in the Company's past rate cases including D.T.E. 01-56. Changes in methods of calculating tax depreciation are generally not a consideration in the development of the depreciation expense used in determining a cost of service requirement. Accordingly, for this additional reason the Company does not believe that it is appropriate to include a "tax" depreciation modification as an exogenous cost. Any change in ratemaking practices adopting this would be a substantial departure from the principles underlying the approved PCM Plan.

Net Value of Bonus Tax Depreciation Treatment
Qualifying 2001 and 2002 Expenditures

Line No.	Year	Bonus Depreciation	MACRS	Net Depreciation Benefit (1) - (2)	Cumulative Excess Tax Depreciation	Total Deferred Tax (4) * 35%	Carrying Benefit Short-Term (a) (5) * 2.29%	Present Value 2004 Dollars (6) * PV
		(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	2001	467,313	54,227	413,086	413,086	144,580	3,311	3,544
2	2002	1,360,084	283,568	1,076,516	1,489,602	521,361	11,939	12,492
3	2003	300,134	428,763	(128,629)	1,360,973	476,341	10,908	11,158
4	2004	263,161	375,944	(112,783)	1,248,190	436,867	10,004	10,004
5	2005	234,383	334,834	(100,450)	1,147,740	401,709	9,199	8,993
6	2006	216,126	308,751	(92,625)	1,055,115	369,290	8,457	8,082
7	2007	195,109	278,727	(83,618)	971,496	340,024	7,787	7,275
8	2008	175,036	250,051	(75,015)	896,481	313,768	7,185	6,563
9	2009	162,217	231,738	(69,521)	826,960	289,436	6,628	5,919
10	2010	157,936	225,622	(67,687)	759,273	265,745	6,086	5,313
11	2011	157,920	225,600	(67,680)	691,593	242,057	5,543	4,731
12	2012	157,936	225,622	(67,687)	623,906	218,367	5,001	4,172
13	2013	157,920	225,600	(67,680)	556,226	194,679	4,458	3,636
14	2014	157,936	225,622	(67,687)	488,539	170,989	3,916	3,122
15	2015	157,920	225,600	(67,680)	420,859	147,301	3,373	2,630
16	2016	157,936	225,622	(67,687)	353,172	123,610	2,831	2,157
17	2017	157,920	225,600	(67,680)	285,492	99,922	2,288	1,705
18	2018	157,936	225,622	(67,687)	217,806	76,232	1,746	1,271
19	2019	157,920	225,600	(67,680)	150,125	52,544	1,203	857
20	2020	157,936	225,622	(67,687)	82,439	28,854	661	460
21	2021	135,652	193,789	(58,137)	24,302	8,506	195	133
22	2022	56,705	81,007	(24,302)	(0)	(0)	(0)	(0)
23	Total	5,303,135	5,303,135	0			112,718	**104,217**
24								
25								
26	Equalized Benefit from Bonus Depreciation Over the Tax Life of 22 years (Line 23 divided by 22)							**4,737**
27								

(a) Average Short-Term Borrowing Rate for 2002 is 2.29%

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THE BERKSHIRE GAS COMPANY
D.T.E. 04-52

Witness: **Jennifer M. Boucher**
Date Filed: **July 20, 2004**

Question
DTE 2-2: Refer to the Company's response to Information Request DTE-1-4. Using the same information provided in the table, by row, calculate the annual cost of the telephone system incurred during each of the years 2001, 2002, and 2003.

Response:

	2001	**2002**	**2003**
CIT lease payment	$4,570.36	$4,570.36	$4,570.36
Sales Tax	$228.52	$228.52	$228.52
Monthly Total	$4,798.88	$4,798.88	$4,798.88
Number of Payments	0	3	12
Total	$0.00	$14,396.64	$57,586.56
Interest Only	$0.00	$4,814.18	$0.00
Total Payments	$0.00	$19,210.82	$57,586.56

In the response to Information Request DTE-1-3, the Company explained its basis for leasing as "a viable, least-cost financing alternative to secure this necessary system upgrade." The regulatory policy of D.T.E. 99-84 that initiated the telephone upgrade was issued on June 29, 2001, which was at the same time the Company requested rate relief in D.T.E. 01-56. While the Company sought to comply with the Department's new telephone response standard as quickly as possible, its inability to issue any long-term debt securities limited its financing alternatives for this substantial mandatory equipment upgrade. In sum, a direct purchase, which might normally have been pursued, was precluded and the lease option was the only alternative available to the Company to procure this necessary, mandated equipment given the Company's then ongoing failure to meet certain covenants in its long-term debt instruments.

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Witness: **John J. Kruszyna**
Date Filed: **July 20, 2004**

Question
DTE 2-3: For each of the years 2001, 2002, and 2003 please provide the rate used to calculate deferred Federal income taxes.

Response: For each of the years, the rate used to calculate deferred Federal income taxes is 35%.

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THE BERKSHIRE GAS COMPANY
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Witness: **John J. Kruszyna**
Date Filed: **July 20, 2004**

Question DTE 2-4: Refer to The Berkshire Gas Company, D.T.E. 01-56 (2002). Please provide the Company's pre-tax weighted average cost of capital.

Response: Per the order in The Berkshire Gas Company, D.T.E. 01-56 (2002), the Company's weighted average cost of capital was 9.37%. The pre-tax calculation is as follows: Common and Preferred Equity factor included in the Cost of Capital = 4.42% / .60775 = 7.27% pre-tax equity factor. The total pre tax weighted cost of capital is the total of the pre-tax equity of 7.27% plus the after-tax long-term debt factor of 4.95% for a total pre-tax weighted average cost of capital of 12.22%

Given that any economic benefit is short-term and temporary, it is Berkshire's position that the average pre-tax short term borrowing rate is the appropriate measure to determine or quantify any benefit realized from the election of bonus depreciation. Please refer to the Company's response to DTE 2-1.